

CALIFORNIA STATE TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: Approval of Minutes of the May 5, 1999
Investment Committee, Open Session

ITEM NUMBER: 3

ATTACHMENT(S): 1

ACTION: X

DATE OF MEETING: June 2, 1999

INFORMATION: _____

PRESENTER(S): Chairperson

Proposed minutes of the Investment Committee Meeting held in open session May 5, 1999 are submitted on the following pages.

**PROPOSED
MINUTES OF THE
INVESTMENT COMMITTEE MEETING
OF THE
CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
MAY 5, 1999
OPEN SESSION
ROBYN D. MILLER BOARD ROOM
7667 FOLSOM BOULEVARD
SACRAMENTO, CALIFORNIA**

COMMITTEE MEMBERS PRESENT

Gary Lynes, Chairperson
Yvonne Gallegos Bodle
George Fenimore
Marty Mathiesen
Lillian Raffel
Emma Zink
Phil Angelides, State Treasurer
Kathleen Connell, State Controller
Richard Whitmore, representing State Superintendent
of Public Instruction, Delaine Eastin
Annette Porini, representing State Director of Finance, Tim Gage

ALSO PRESENT

James Mosman, Chief Executive Officer
Patrick Mitchell, Chief Investment Officer
Elleen Okada, Director of Investment Admin. and External Relations
Chris Waddell, Chief Counsel
Beth Renge, Deputy State Controller
Michael Picker, Deputy State Treasurer
Chris Drevalas, Treasury Program Manager
Doug Wills, Staff Counsel
Mitch Pleis, Director of Real Estate
Real Desrochers, Director of Alternative Investments
Michelle Cunningham, Director of Fixed Income
Steven Tong, Director of Internal Equities
Richard Rose, Investment Officer
Glenn Hosokawa, Investment Officer
Allan Emkin, Pension Consulting Alliance
Nori Gerardo Lietz, Pension Consulting Alliance
Terry Sander, Pension Consulting Alliance
Doug Le Bon, Pathway Capital Management
Thomas Hayes, Metropolitan West Financial, Inc.
Ralph Vitale, State Street
Orrin Bargerhuff, Bargerhuff & Associates, Inc.
George Wichman, California Teachers' Association

Edna White, California Retired Teachers' Association
Beverly Carlson, California Teachers' Association
Loretta Toggenburger, United Teachers of Los Angeles
Bill Collins, California Teachers Association
Mary Ann Avansino, Executive Assistant

A quorum being present, Chairperson Lynes reconvened the open session meeting at 9:44 a.m.

I. **ANNOUNCEMENTS** (Item 2)
There were no announcements.

II. **APPROVAL OF MINUTES OF THE APRIL 6, 1999 AND APRIL 7, 1999 INVESTMENT COMMITTEE, OPEN SESSION** (Item 3)

MOTION duly made by Mr. Mathiesen, seconded by Mr. Picker and carried to approve the minutes of the April 6, 1999 and April 7, 1999 Investment Committee, Open Session as presented.

III. **FIXED INCOME - PANEL ON SECURITIES LENDING** (Item 4)
Mr. Mitchell introduced Mr. Hayes, Mr. Vitale, and Mr. Bargerhuff. The panelists presented information on factors driving securities lending, collateral management, and managing operational risk. Discussion ensued.

Chairperson Lynes recessed the meeting at 11:05 p.m.
The meeting reconvened at 11:20 a.m.

IV. **FIXED INCOME – SECURITIES LENDING POLICY** (Item 5)
Ms. Cunningham and Mr. Hosokawa gave a historical overview of CalSTRS' securities lending program, outlined the current program and reviewed policy revisions. Discussion ensued.

MOTION duly made by Mr. Fenimore, seconded by Dr. Bodle and carried to adopt a resolution to approve the Securities Lending Program Policy Manual as presented.

V. **INTERNAL EQUITY BUSINESS PLAN** (Item 6)
Mr. Tong discussed the written report which defined the role and purpose of the internally managed equity portfolio, reviewed the history, reporting on the current status, reviewed performance measurement standards, proposed objectives and implementation going forward and reviewed policy revisions.

Dr. Connell exited the meeting at 11:50 a.m. Ms. Renge assumed representation for the State Controller.

MOTION duly made by Mr. Whitmore, seconded by Mr. Picker and carried to adopt a resolution to approve the Internal Equities business plan and Internal S&P 500 Indexed Portfolio Policy. as presented.

Mr. Angelides arrived at 12:00 p.m.

VI. **GENERAL – SIGNIFICANT EVENT POLICY** (Item 7)

Mr. Mitchell presented the written summary concerning procedures available under the Bagley-Keene Open Meetings Act to deal with unanticipated investment decisions that require Investment Committee action prior to the next available Investment Committee meeting.

MOTION duly made by Mr. Fenimore, seconded by Mr. Angelides and carried to adopt a resolution to use the mechanisms available under the Bagley-Keene Open Meetings Act to address the need for expedited investment decisions when necessary.

VII. **REAL ESTATE – BUSINESS PLAN** (Item 8)

Mr. Pleis and Ms. Gerardo Lietz presented the real estate business plan and discussed implementation of a strategic allocation to real estate, identification of the risk/return profiles, current portfolio composition, and revisions to existing policy.

For the record, Ms. Gerardo Lietz clarified that Pension Consulting Alliance's concurrence with the recommended business plan and policy revisions was not included as a part of the written item because, at the time of mailing, consultant had not had the opportunity to review the final draft. Ms. Gerardo Lietz stated her concurrence with Staff recommendation of the approval of the 1999 real estate business plan and proposed policy revisions.

Discussion continued.

MOTION duly made by Mr. Angelides, seconded by Mr. Fenimore and carried to adopt a resolution to approve the business plan and revised Real Estate Policy Manual with the following caveats: 1) international investments must be presented to the Committee, 2) Staff is directed to develop a leverage policy for Committee approval, and 3) clarification of overlaps in property type between risk categories. Ms. Renge abstained.

Chairperson Lynes recessed the meeting at 1:00 p.m.
The meeting reconvened at 1:50 p.m.

VIII. **UPDATE ON STATE LEGISLATION** (Item 9)

There was nothing to report.

IX. **EXTERNAL EQUITY – REPORT ON U.S. EQUITY MANAGER STRUCTURE** (Item 10)

Ms. Okada reported that with the completion of the domestic equity manager RFP, CalSTRS' active domestic equity portfolio has been structured with a diversification of styles and capitalization and is within the target allocation range

X. **GENERAL - INVESTMENT OBJECTIVES TIMELINE** (Item 11)

Mr. Mitchell reviewed the progress report on the 1998/99 Investment Objectives. He reported that all objectives are on track for completion with the exception of General – Risk Management. This objective will be carried over to the 1999/00 Investment objectives to be prioritized in July.

XI. **ACTIVITY STATUS REPORT – CREDIT ENHANCEMENT** (Item 12)

Mr. Rose presented the written report. He reviewed an opportunity for credit enhancement with Kern County High School District. Discussion ensued.

MOTION duly made by Mr. Whitmore, seconded by Dr. Bodle and carried to continue with due diligence on the Kern County High School District, providing it meets existing criteria and favorable legal review.

XIII. **ACTIVITY STATUS REPORT – REAL ESTATE** (Item 13)

Mr. Pleis presented the written report.

XIV. **ALTERNATIVE INVESTMENTS - ACTIVITY STATUS REPORT** (Item 14)

Mr. Desrochers presented the written report and reported on a \$27.5 million commitment made under delegation to Chisholm Partners IV, L.P.

XV. **REPORT OF THE CHIEF INVESTMENT OFFICER** (Item 15)

Mr. Mitchell provided updates to the written report.

XVI. **OPPORTUNITY FOR STATEMENTS FROM THE PUBLIC** (Item 16)

There were no statements from the public.

XVII. **MOVE TO CLOSED SESSION**

Chairperson Lynes recessed the meeting at 2:30 p.m. and reconvened directly into closed session at 2:30 p.m.

XVIII. **ADJOURNMENT**

Chairperson Lynes announced that while in closed session, the Committee discussed matters pertaining to personnel and investment decisions. There being no further business to conduct, Chairperson Lynes adjourned the meeting at 3:40 p.m.

James D. Mosman, Chief Executive Officer and Secretary to the
Teachers' Retirement Board

Gary Lynes, Chairperson